

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Aqua Illinois, Inc.)	
)	Docket No. 10-0194
Proposed increase in general water)	
rates for its Kankakee service area)	

Surrebuttal Testimony of

TERRY RAKOCY

President of Aqua Illinois, Inc.

August 12, 2010

1 **I. WITNESS BACKGROUND**

2 **Q. Please state your name and business address.**

3 A. My name is Terry Rakocy. My business address is 1000 South Schuyler Avenue,
4 Kankakee, Illinois, 60901.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by Aqua Illinois, Inc. (“Aqua” or “the Company”) as President.

7 **Q. Please briefly describe your education and business experience.**

8 A. I graduated from Youngstown State University, Youngstown, Ohio in 1972. I received a
9 Bachelor of Science Degree in Industrial Engineering. In addition, I attended the Ohio
10 State University College of Business, and completed the Executive Development
11 Program in 1990. I hold a Professional Engineer registration from the State of Ohio. My
12 professional affiliations include the National Association of Water Companies, in which I
13 served on the Customer Service Committee, and the Illinois-Missouri Chapter of the
14 National Association of Water Companies, in which I am a Director of the organization.
15 Other professional affiliations include the American Water Works Association, in which I
16 am a Life Member, and the Illinois Section of American Water Works Association. I
17 have thirty-five years of progressive management experience in the area of water supply,
18 treatment and distribution; plus experience in wastewater collection and treatment. The
19 experience has included seven years of operational responsibilities as Chief Engineer for
20 the 63,000 customer of the City of Youngstown, Ohio municipal water system; Project
21 Manager for a 3.0 MGD water treatment plant expansion; Assistant Division Manager
22 and Division Manager for the 25,000 customer Consumers Ohio Water Company,

Massillon Division; President of the 8,000 customer Consumers New Hampshire Water Company; and currently President of Aqua Illinois, Inc., Aqua Indiana, Inc., and Aqua Missouri, Inc.

Q. What are your duties as President of Aqua Illinois, Inc.?

A. As President, I am responsible for the overall leadership, management and operations of Aqua, which serves approximately 56,200 water customers and 6,100 wastewater customers in the State of Illinois. I have direct responsibility for planning, organizing and staffing. I, along with the other officers of the Company, have responsibility for customer satisfaction and public relations including local and state government officials and news media. I am responsible for the financial performance of the Company, including business plan development. In addition, I am responsible for marketing, legislative relations, regulatory relations and parent company relations.

Q. Before what regulatory agencies have you previously appeared and presented expert testimony?

A. I have submitted testimony to the Illinois Commerce Commission (“Commission”) in a number of Dockets. Also, I have testified before the New Hampshire Public Service Commission and Ohio Public Utility Commission.

Q. When did you last testify before the Illinois Commerce Commission?

A. I most recently submitted testimony in Docket No. 06-0655.

42 **II. INTRODUCTION**

43 **Q. What is the purpose of your Surrebuttal testimony?**

44 A. The purpose of my testimony is to respond the Staff witness Kight-Garlich’s continued
45 support of a proposed 9.61% return on equity (“ROE”) proposal, as set forth in her
46 Rebuttal Testimony. In particular, she continues to claim that such a result is
47 “reasonable”, and suggests that a recent Proposed Order issued in a rate case involving
48 two small water utilities somehow validates her proposal in this proceeding. (Kight-
49 Garlich Reb., Staff Ex. 8.0, 17:353-56.) With due respect to Staff, its proposed ROE is
50 clearly unreasonable. In my view, the Company’s overall performance fully supports a
51 return of 11.3%. At the very least, it supports an ROE consistent with prior Commission
52 Orders setting rates for Aqua, which is above 10%.

53 I have been President of Aqua Illinois for 13 years and, during that time, I cannot
54 recall a Staff recommendation with such a low ROE for Aqua. Indeed, Staff’s proposal is
55 77 basis points lower than what the Commission recently approved as a reasonable ROE
56 for a similar water utility, Illinois-American Water Company – 10.38%. My testimony
57 will describe how Staff’s proposal likely will have a significant negative impact for the
58 Company and its customers.

59 **Q. How do you respond to Ms. Kight-Garlich’s statement that “the investor-required**
60 **rate of return on common equity for Aqua is 9.61%.” (Staff Ex., 8.0, 2:35-36)?**

61 A. In my view, that statement presents only part of the picture. Other factors must be
62 considered, such as regulatory stability, and the Company’s actions and operations to
63 provide cost-effective, reliable and safe service to customers. As President of Aqua, I am
64 responsible for the oversight of its management and operations in Illinois. Only with the

65 approval of a reasonable and adequate ROE can the Company hope to continue to address
66 the formidable tasks of rehabilitating its infrastructure, acquiring and repairing troubled
67 systems, and maintaining quality service. During my years with Aqua, the Commission
68 has given clear signals that investment in aging infrastructure and the related water
69 service quality is a critical component in establishing rates. Awarding an appropriate
70 ROE is essential to Aqua's on-going ability to maintain and improve service quality to its
71 customers. Aqua has relied upon a series of Commission decisions relating to its ROE in
72 its efforts to improve its infrastructure.

73 However, because of Staff's unusual and unprecedented departure from past
74 recommended ROEs, and Ms. Kight-Garlich's continued claims that her proposal is
75 reasonable, I feel it is important to highlight Aqua's ongoing efforts to improve its
76 infrastructure to the benefit of customers, its compliance with all environmental
77 regulations and management's commitment to cost containment.

78 **Q. How do you respond to Ms. Kight-Garlich's comparison of her proposed ROE for**
79 **Aqua, with Staff's proposed ROE for two Utilities Inc. subsidiaries?**

80 A. If the Commission is going to compare water utilities, Ms. Kight-Garlich's comparison
81 of the ROE proposed to be granted to two Utilities Inc. companies simply misses the
82 mark. These two water utilities, together, have less than 1,400 active customers.¹ One
83 cannot reasonably compare Aqua's operations to those two companies. Ironically,
84 though, Staff has proposed an ROE in the Utilities Inc. cases that is 21 basis points higher
85 than what Staff recommends in this proceeding. Docket Nos. 09-0548, 09-0549 Consol.,

¹ Apple Canyon Utility Company has approximately 890 active water usage service customers. Lubertozi Dir., 1:27, Docket No. 09-0548. Like Wildwood Utilities, Corp. has approximately 460 customers. Docket No. 09-0549, Lubertozi Dir., 1:27.

86 Proposed Order at 24. While Ms. Kight-Garlich attempts to make this comparison, she
87 fails to explain even that difference in ROE results.

88 If the Commission were to compare water utilities, Aqua is just as efficient and
89 dedicated to customer service as its fellow water company, Illinois American, which also
90 serves sizable communities and has operating characteristics similar to Aqua Illinois.
91 Earlier this year, the Commission granted Illinois American a ROE of 10.38%. While I
92 recognize that there are differences between Aqua and Illinois American, I seriously
93 doubt the economy has changed that dramatically in the last four months that would
94 warrant a 77 basis point disparity in ROEs for water companies that are making
95 significant investments in infrastructure used to serve our customers and communities.

96 Taking these considerations into account, I believe that Staff's recommendation
97 will unnecessarily penalize a well-managed Company that is prudently investing in its
98 aging infrastructure, as well as penalize our customers. My colleague, David Smeltzer,
99 will focus on the negative impact Staff's recommendation could have on Aqua's ability
100 to borrow at reasonable rates going forward.

101 **Q. Does application of Ms. Kight-Garlich's ROE analysis fail to reflect the realities of**
102 **Aqua's operations?**

103 A. Yes. There are several real-world examples to further demonstrate why Staff's ROE
104 proposal is unreasonable.

105 **1. Water Quality.** Aqua customers have long enjoyed a safe water supply. The
106 Company is in full compliance with all existing Federal and State drinking water
107 standards. In addition, customer complaints regarding taste, odor or appearance of the

Company's product have been minimal, with only discoloration complaints driven by dead-end water mains. I believe this attests to the ongoing commitment of the Aqua's management to the safety and quality of the product it delivers to its customers. It is this same commitment to quality that has Aqua allocating capital resources to the rehabilitation of its aging infrastructure. The Company requires adequate capital, at reasonable cost, to continue improving its infrastructure.

Let me offer one example of Aqua's commitment to investing in the replacement of aged water mains and elimination of dead-end water mains in an effort to reduce the discoloration complaints even further. In 2007, Aqua acquired the water assets of the Village of Manteno, which had a known contamination in their well supply, and replaced their well supply with the Kankakee Division water. The 3,800 customers in the Village of Manteno went from repeated contamination events to a high water quality for their potable water requirements. Since Aqua interconnected the Village of Manteno to the Kankakee water system, the Village has not had a single contamination event. While Ms. Kight-Garlich cites to text books to claim that future growth will be limited, the reality is that the Commission and other state agencies have encouraged Aqua to acquire the water-related assets of underperforming municipal and privately-owned water companies. (Staff Ex. 8.0, 8:163-9:196).

2. Cost Containment. The Company has a proven record for containing operating costs, and continually looks for ways to improve cost control. While the acquisitions over the past several years have contributed to the overall gains in productivity, there has also been a conscious effort by management to review staffing needs and operating procedures with the purpose of improving service while controlling

costs. Aqua's workforce is lean and efficient. Let me offer an example of Aqua's cost containment efforts. Aqua's Management Fees per Customer are \$45 compared to \$63 per Customer for Illinois American Water Company. Our costs are 29% lower than the management fees allowed in the last Illinois American rate case. If one compares Total Operating Expense Before Income Taxes Per Customer, then Aqua also is in a better position than Illinois American Water Company. For our Kankakee Water Division, our Total Operating Expense Before Income Taxes Per Customer is \$476, compared to \$543 for Illinois American. (The Illinois American information comes from its recent rate case, Docket No 09-0319). Compared to other water companies that operate in Illinois, Aqua leads in low O&M cost per customer. It would be poor regulatory policy to adopt an unreasonably low ROE and penalize a Company that works hard to manage its costs.

3. Customer Service. For many years, Aqua has provided its customers with a high level of customer service. In addition to the national call centers, one of which is located in Kankakee Illinois, Aqua has a dedicated local office and field customer service team made up of three Customer Service Specialist, three Distribution Techs (field service representatives) and four meter readers. In addition, if the customer service needs exceed the availability of the above employees Aqua is able to call upon other employees to address the customers' needs in the short term. These individuals, through a combination of new technological and management initiatives, have further improved the Company's customer service operations, addressing and improving many of its key call center statistics.

4. Acquisition of Troubled or Weaker Water Systems. Over the past 12 years, Aqua has acquired 6 water supply systems in the Kankakee Division that were previously

operated by municipal entities. Two of these water systems exhibited problems representative of a troubled water company, including contaminated water supply. For example, the Village of Grant Park had arsenic contamination in its water supply wells, and the Village of Manteno had e-coli in its water supply wells. Upon acquiring these systems, Aqua made immediate improvements in quality, supply and customer service. The Company hopes to continue to acquire systems and provide solutions to the long-term water supply requirements of an even larger portion of Illinois, provided that it can earn a reasonable return and obtain capital at reasonable rates.

In another acquisition outside of the Kankakee Division, Aqua upon a request of the Commission, the Illinois Environmental Protection Agency and the Illinois Attorney General, acquired the water assets of the Oakview Water System in Will County. Aqua was asked to take over this water system due to continuous boil water orders due to contamination and a total lack of water in the distribution system during various times of the day. Aqua stepped up to acquire this troubled water system when no other utility would do so. The 105 customers in this water system now have a high quality water, reliable service and good customer service. Although the water rates are high, Aqua is losing money on this system on an ongoing basis. Aqua accepts this situation as the right thing to do for these customers but with the Staff's remarkably low ROE, Aqua will find it difficult to engage in similar acquisitions in the future. Again, while Ms. Kight-Garlich cites to text books to claim that future growth will be limited, the reality is that the Commission and other state agencies have encouraged Aqua to acquire the water-related assets of underperforming municipal and privately-owned water companies. (Staff Ex. 8.0, 8:163-9:196).

177 **5. Infrastructure Rehabilitation.** Over eight years ago, Aqua embarked on a
178 substantial capital investment program intended to ensure long-term viability and
179 reliability of its underground piping infrastructure through significant annual investments
180 in infrastructure rehabilitation. During this time, Aqua's Kankakee Division replaced
181 12.6 miles of aged water mains to improve water quality and reliability of service.
182 Unlike numerous other water systems in the country, Aqua has positioned itself well to
183 ensure continuity of service through a sound utility infrastructure for the foreseeable
184 future. The infrastructure replacement program significantly improves the reliability of
185 service and helps assure that industries and commercial establishments will be able to
186 remain in operation. Failure within the water distribution system could jeopardize local
187 business' ability to produce products or services that result in local jobs for Kankakee
188 County residents. This could have a devastating effect on the local communities,
189 potentially discouraging residential, commercial and industrial growth in the Kankakee
190 Division service area. This growth would presumably have a buoyant effect on the local
191 economy. Staff's ROE likely would have a real, negative impact on the Company's
192 efforts in this area.

193 **III. CONCLUSION**

194 **Q. Does this conclude your Surrebuttal testimony?**

195 **A.** Yes, it does.